# RIVERSIDE: AUDIT & ADVISORY SERVICES

December 12, 2018

To: Bobbi McCracken, Associate Vice Chancellor

Business & Financial Services

Subject: Internal Audit of Travel & Entertainment Corporate Charge Cards

Ref: R2018-07

We have completed our audit of the University of California Riverside (UCR) Travel & Entertainment Corporate Charge Cards program in accordance with the UCR Audit Plan. Our report is attached for your review. We will perform audit follow-up procedures in the future to review the status of management action. This follow-up may take the form of a discussion or perhaps a limited review. Audit R2018-07 will remain open until we have evaluated the actions taken.

We appreciate the cooperation and assistance provided by your staff. Should you have any questions concerning the report, please do not hesitate to contact me.

Gregory Moore

Director

cc: Ethics & Compliance Risk and Audit Controls Committee

Director Triche

Supervisor Smith

UNIVERSITY OF CALIFORNIA AT RIVERSIDE

AUDIT & ADVISORY SERVICES

MEMBER OF ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS

INTERNAL AUDIT REPORT R2018-07

TRAVEL & ENTERTAINMENT

CORPORATE CHARGE CARDS

DECEMBER 2018

Approved by:

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**UC RIVERSIDE**

**TRAVEL & ENTERTAINMENT CORPORATE CHARGE CARDS**

**INTERNAL AUDIT REPORT R2018-07**

**DECEMBER 2018**

**I. MANAGEMENT SUMMARY**

Based upon the results of work performed within the scope of the audit, it is our opinion that, overall, the system of internal controls over the UCR Travel & Entertainment Corporate Charge Cards (T&E Cards) program is operating satisfactorily and is generally in compliance with University policies and procedures.

While controls over the T&E card program as well as policy, regulations, and procedures governing official University travel are generally effective in preventing and detecting misuse, fraud, waste, and abuse, we observed some areas that may be enhanced to strengthen internal controls.

1) A considerable number of individuals have T&E Cards that are rarely used. (Observation III.A.)

2) A substantial portion of all T&E Cards had account credit limits that were underutilized and may have been set too high. (Observation III.B.)

3) Numerous T&E cardholders have past due balances in their accounts. (Observation III.C.)

These items are discussed below. Minor items that were not of a magnitude to warrant inclusion in the report were discussed verbally with management.

**II. INTRODUCTION**

**A. PURPOSE**

UCR Audit & Advisory Services (A&AS), as part of its Audit Plan, performed a review of the UCR T&E Card program, associated travel rules, regulations, and transactions during selected periods to evaluate compliance with certain University policies and procedures, efficiency and effectiveness of selected operations, and adequacy of certain internal controls.

**B. BACKGROUND**

UC has contracted with US Bank for VISA T&E Cards to facilitate the payment process for expenses related to travel and entertainment costs incurred by active employees in the conduct of University business. For the convenience of the traveler, the T&E Card can be used to pay for most travel expenses – airline tickets, car rentals, hotels, meals, *etc*. – greatly reducing the need to carry cash or a personal credit/debit card.

Unlike other Visa cards that have a revolving line of credit, the US Bank T&E Card is a charge card. This means that the balance is payable in full before the next billing. UCR employees issued a T&E Card are solely liable for all charges incurred on that account, including delinquency fees, if any. In addition to charging expenses related to their travel on behalf of the University, they may use the T&E Card for incidental personal expenses when it is not practical to use another (personal) credit/debit card. They are responsible for paying for such personal expenses.

Current policies pertaining to statewide, out-of-state, and foreign travel still apply, as does the requirement for the traveler to submit a correct Travel Reimbursement Request via the online iTravel expense reporting system. UCR will reimburse the cardholder/traveler for University travel upon receipt of a properly documented/approved Travel Reimbursement Request within iTravel. A promptly submitted (within twenty-one days) travel reimbursement request should permit reimbursement prior to receipt of the T&E Card monthly billing statement.

**C. SCOPE**

Reviewed T&E Card program guidance, rules, and procedures including eligibility requirements, approval and authorization, card issuance and renewal, department and cardholder responsibilities, and associated travel policy and regulation.

Obtained records from US Bank’s online program management tool, Access Online, including reports of UCR T&E Card program cardholder account details, accounts spend analyses, transaction detail reports, merchants spend analyses, past due, account suspension, charge-off reports, and other pertinent information. Reviewed T&E Card transactions during the period July 1, 2014 through June 30, 2017 or the three (3) Fiscal Years (FYs) 2015 through 2017 in general; and account openings, renewals, cancellations, and account status changes from the inception of the program through the dates of audit fieldwork in particular analyses.

**D. INTERNAL CONTROLS AND COMPLIANCE**

As part of the review, internal controls were examined within the scope of the audit.

Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

\* effectiveness and efficiency of operations

\* reliability of financial reporting

\* compliance with applicable laws and regulations

Substantive audit procedures were performed during January 2 through April 30, 2018. Accordingly, this evaluation of internal controls is based on our knowledge as of that time and should be read with that understanding.

**III. OBSERVATIONS, COMMENTS, AND RECOMMENDATIONS**

**A. The Number of T&E Cards in Circulation**

A considerable number of individuals have T&E Cards that are rarely used. The use of T&E Cards reduces the administrative burden of processing travel advances and for the convenience of the traveler. However, because they allow the same individual to order, pay for, and receive goods and services, T&E cards may be at risk for misuse, fraud, waste, and abuse. An unwarranted number of cards in circulation may expose UCR to the possibility of fraud.

COMMENTS

Based on US Bank records as of January 2, 2018, a total of 616 T&E card accounts were opened for UCR employees since 2003. Of this total, 67 cards (11%) were reported lost or stolen, 46 (7%) were reported for fraud or suspicion of fraud, 15 (2%) were suspended for balances unpaid more than 60 days past due, and 68 (11%) were closed for balances unpaid more than 90 days past due. The account status of 315 T&E cards was “open” or active on January 2, 2018.

Analysis of account spend data showed that during FYs 2015 through 2017, there were 322 “open” T&E Card accounts, of which 80 (25%) had zero spending or were not used. It appears that these cards were not needed by the individuals to whom they were issued.

RECOMMENDATIONS

To mitigate the risk of loss, fraud, misuse, and abuse, management should reduce the number of T&E Cards in circulation by:

* implementing a policy requiring a certain amount of anticipated travel before issuance or re-issuance of a T&E Card; and
* requiring periodic review of accounts for actual usage and deactivating accounts of unused and underutilized cards.

MANAGEMENT RESPONSE

See response below.

**B. Account Credit Limits**

During FYs 2015 through 2017, a significant number of T&E Cards had account credit limits that were underutilized and may have been set too high.

COMMENTS

Analysis of account spend data showed that there were 266 T&E Card accounts with a credit limit of $2,000, but only 13 (5%) of these cardholders had average spend per cycle of at least $1,000 or half of their credit limit. There were 38 cardholders with a credit limit of $1,500, but only 4 (11%) spent at least half of their credit limit per cycle on average. 18 cardholders had credit limits ranging from $2,500 to $18,000, but only 2 (11%) of them spent at least half of their credit limit per cycle on average.

RECOMMENDATIONS

As part of regularly reviewing T&E Card account activity, management should identify underutilized accounts and consider reducing the credit limits of those accounts. Department Heads authorizing the issuance of new T&E Cards should set the credit limit of every card at the lowest level according to each new cardholder’s travel requirements.

MANAGEMENT RESPONSE

See response below.

**C. Delinquent Accounts**

Numerous T&E Cardholders have past due balances in their accounts. If a cardholder defaults on paying an outstanding balance, the University would be responsible for paying the balance.

COMMENTS

On February 2, 2018, based on US Bank’s records, 61 T&E Cardholders had past due balances in their accounts, aggregating $52,218 in overdue unpaid charges. Of these, 42 accounts had balances 31-60 days past due, 10 accounts had balances 61 to 90 days past due and were in “suspended” status, and 9 accounts had balances more than 90 days past due and were “closed” (cancelled).

US Bank assesses 2.5% delinquency fees on unpaid balances when they reach 61 days past due and the card will be suspended. If still no payment is made before 90 days past due, there will be another 2.5% late fee, and at 91 days, the card will be closed. At 151 days past due, accounts are “charged-off” and turned over for collection by an outside agency. At 180 days past due, US Bank will write off the bad debt. UCR makes every reasonable effort to recover the bad debt from the cardholder because the bad debt is automatically charged to the University.

Based on US Bank’s records as of March 22, 2018, during FYs 2015 through 2017, 16 T&E Card accounts were charged-off for a total amount of $43,896, of which $25,788 (59%) has been recovered and $18,108 (41%) remains uncollected.

RECOMMENDATIONS

Accounting Services should provide department heads with timely information about T&E cardholders with delinquent accounts. Department heads should reiterate that cardholders are totally responsible and liable for all expenses charged to the T&E Card and that their bills should be paid in full to US Bank within 30 days of receiving their statements. Departments should be held responsible for the cardholder accounts written off by US Bank and charged to the University.

MANAGEMENT RESPONSE

Business & Financial Services agrees in principle with the recommendations and have initiated activities to revamp both the Procurement and Travel Card programs to improve operating efficiency.

A new One Card program will be implemented to combine capabilities of both cards under a single corporate liability program. This change will allow greater flexibility for the departments, reduce the number of travel cash advances requested, and eliminate card payment delinquencies.

The current travel card program will be reduced in size when we transition some users to the One Card. Travelers needing to make travel related purchases will be transitioned to a new corporate liability card.

The projected transition date for both programs is June 30, 2019.